Platinum Japan Fund

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Performance

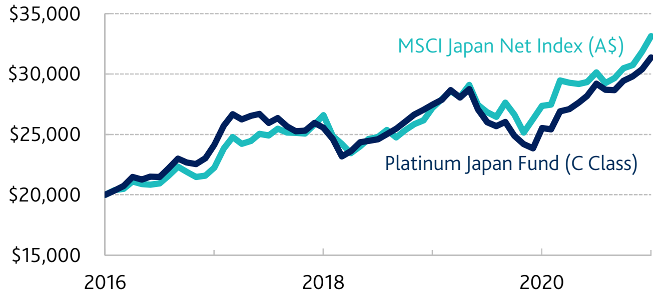
(compound p.a.⁺, to 30 September 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	7%	23%	7%	9%	14%
MSCI Japan Index^	9%	21%	8%	11%	4%

⁺ Excludes quarterly performance.
* C Class – standard fee option. Inception date: 30 June 1998.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI Japan Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet Research Systems.
Historical performance is not a reliable indicator of future performance.
See note 1, page 4. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 September 2016 to 30 September 2021



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet Research Systems. See notes 1 & 2, page 4.

The Fund (C Class) returned 6.6% for the quarter and 23.0% for the year.[1]

After oscillating through July and August, Japanese equities rallied strongly from the beginning of September, as investors were reassured by the resignation of the unpopular Prime Minister Suga, that the Liberal Democratic Party (LDP) was likely to remain in power and provide continued fiscal stimulus and monetary easing. The rally, however, suffered a large reversal in the last few days of the quarter, as fears of a slowdown in the Chinese economy, issues with shortages of freight capacity and essential components disrupting supply chains, and concerns over inflation and rising interest rates, overwhelmed the positive political sentiment. Investors also preferred Taro Kono to the eventual leadership vote winner Fumio Kishida. Despite the disenchantment, Kishida's policy platform appears to imply a continuation of the "Abenomics" status quo, albeit with more focus on measures to reduce inequality.

The likely default and restructuring of China Evergrande with its US$300 billion of liabilities, along with a number of other smaller indebted developers, seems to already be having flow-on effects in the Chinese economy.[2] While we do not envisage broader financial contagion,[3] the heavy reliance on real estate as a driver of the Chinese, and thus global economy, means we may see a general slowdown in demand for commodities and other inputs used in that industry with impacts to global prices, similar to that which has hit the iron ore price from the end of August (though environmental policies that curb steel production may also be a factor in that market). The slowdown may also extend to Chinese consumer spending, as people become concerned with their job security and investments in the property sector.

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum Japan Fund report are in AUD terms. Individual stock returns and commodity prices are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

2 https://www.cnbc.com/2021/09/30/china-sept-factory-activity-unexpectedly-contracts-shows-official-pmi.html (although COVID outbreaks and associated restrictions are likely also having an impact).

3 See Andrew Clifford's Macro Overview and our Market Update on 22 September for more detail.

Disposition of Assets

REGION	30 SEP 2021	30 JUN 2021	30 SEP 2020
Japan	80%	84%	88%
South Korea	6%	7%	9%
Cash	13%	9%	3%
Shorts	-5%	-3%	-3%

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 SEP 2021	30 JUN 2021	30 SEP 2020
Information Technology	20%	24%	21%
Industrials	19%	21%	11%
Materials	13%	8%	4%
Communication Services	9%	7%	26%
Consumer Discretionary	8%	12%	11%
Consumer Staples	6%	3%	1%
Health Care	5%	9%	18%
Financials	2%	3%	3%
Real Estate	1%	1%	0%
TOTAL NET EXPOSURE	82%	88%	94%

See note 4, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Minebea Co Ltd	Japan	Industrials	4.7%
Open House Co Ltd	Japan	Cons Discretionary	4.2%
Lixil Group Corp	Japan	Industrials	4.1%
DeNA Co Ltd	Japan	Comm Services	3.6%
CyberAgent Inc	Japan	Comm Services	3.5%
Showa Denko KK	Japan	Materials	3.2%
Toyota Motor Corp	Japan	Cons Discretionary	3.1%
Asahi Group Holdings	Japan	Consumer Staples	3.1%
Toyo Seikan Group	Japan	Materials	2.9%
Pigeon Corp	Japan	Consumer Staples	2.9%

As at 30 September 2021. See note 5, page 4.
Source: Platinum Investment Management Limited

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pjf.

The Japanese market's rapid appreciation amidst a likely slowdown in its large neighbour's economy, coupled with rising global interest rates, led us to take measures to reduce our net invested position in the second-to-last week of the quarter, both via sales of those companies more exposed to commodity demand and Chinese consumer spending, as well as taking short positions against very expensive Japanese quality/growth favourites that are especially exposed to higher bond rates. This assisted our performance toward the end of the quarter as the market sold off.

From a single stock perspective, the largest contributor to performance in the quarter was shipping owner **Kawasaki Kisen Kaisha** (providing a 1.8% contribution to performance). We bought a 3.2% position in August on the basis of skyrocketing freight rates owing to shortages of capacity, as well as an ongoing restructuring story and improved corporate governance (around 39% of the company is owned by an activist investor). Despite extensive appreciation prior to our purchase, the market was sceptical of the duration of buoyant freight rates, allowing us to buy the stock on only 2x its expected earnings for the current year, and below its book value. We accumulated our position at an average price of JPY 4366, then sold the majority a little over a month later at an average price of JPY 7225 due to the rapid share price appreciation and our concerns over the China slowdown. The stock has since pulled back to JPY 6080 and we maintained a 1.6% position at the time of writing.

Other major contributors included highly profitable and fast-growing specialised residential real estate developer **Open House** (+27% over the quarter), which gained following an upgrade to earnings guidance due to the strong performance of its recently acquired condominium business, and its US operations. Database and ERP software distributor **Oracle Corporation Japan** (+16%) also benefited from better-than-expected earnings and a reaffirmation of full-year guidance. **Renesas Electronics** (+16%) gained on excitement around its announcement of its new combination offerings that marry Renesas chips and sensors with the products of its recently acquired subsidiary, Dialog Semiconductor.

Detractors from performance included dynamic random-access memory (DRAM) producer **SK Hynix** (-19%) as memory prices retraced some of their gains, graphite electrode and chemicals producer **Showa Denko** (-17%) as it announced an equity raising to deleverage its balance sheet following its acquisition of Hitachi Chemical, and **Doosan Bobcat** (-17%), the Korean owner of the Bobcat small excavator brand globally, as market concerns grew over input cost increases.

When confronted with declining stock prices, it is important to remind oneself why positions are held to ensure the real-time market feedback does not precipitate rash action. SK Hynix is part of a three-player oligopolistic market in DRAM that while remaining cyclical, has demonstrated a large reduction in the depth of its troughs owing to its now consolidated structure. The stock is trading at around book value, a level that has proven to be good buying historically. Showa Denko's legacy business is well positioned for a transition in steel production away from carbon-heavy blast furnaces toward more environmentally friendly electric arc furnaces, and its Hitachi Chemical acquisition positions it well for growth in specialty chemicals used in semiconductor production. It is trading on 7.5x consensus earnings expectations for next year. Doosan Bobcat has a credible North American expansion story as it leverages new products to drive growth in its dealership locations across the country while benefiting from strength in the US housing market. The business earns very strong returns on capital and can be bought for 10x current year earnings.

Changes to the Portfolio

We continued to evolve the Fund's positioning as we worked through existing positions and uncovered new ideas. Positions sold included **NEC Corp** (+83% from its March 2020 COVID lows), **Horiba** (+81% from its March 2020 COVID lows) and **Sapporo Holdings** (+48% from its March 2020 COVID lows) following strong periods of appreciation.

NEC should exhibit steady growth as customers invest in their digital transitions, but this seems priced in. Horiba faces a secular decline in its engine emissions testing business that overwhelms the attractions of its growth business. Sapporo looks unlikely to return significant value to shareholders from its real estate holdings anytime soon, and is not well positioned as a third player in a declining beer market.

New significant additions to the Fund included the abovementioned **Kawasaki Kisen Kaisha** and **Pigeon Corp**. Pigeon is a leading brand in baby and childcare products, with a strong position in China. Worries over a severe reduction in the birth rate due to COVID have given us the opportunity to purchase the stock well below usual trading levels.

We also added significantly to existing positions in **Showa Denko**, cash-rich game developer **DeNA**, **Open House** and **SK Hynix**, among others.

Outlook

Market worries around a China slowdown and disorderly deleveraging in the property sector, supply chain issues leading to product shortages, and inflation and the path of interest rates, seem likely to foment further volatility in markets in the coming months. We will continue to employ our flexible approach to attempt to benefit from the opportunities that such volatility can present to us.

As we continue to reshape the portfolio, we expect to increase our exposure to well-positioned, attractively valued companies exhibiting improving corporate governance and capital allocation. Improving profitability for Japan Inc as it increasingly becomes a focus for newly enlightened management teams should be an important driver for the Japanese market going forward, and we aim to identify the stocks we believe are best placed to benefit from this trend.

Notes

Unless otherwise specified, all references to "Platinum" in this report are references to Platinum Investment Management Limited (ABN 25 063 565 006, AFSL 221935).

Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. [The gross MSCI index was used prior to 31/12/98]. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, the Fund's holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The investment returns depicted in the graph are cumulative on A$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows the Fund's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "Shorts" show the Fund's exposure to its short securities positions and short securities/index derivative positions, as a percentage of its portfolio market value. "Cash" in this table includes cash at bank, cash payables and receivables and cash exposures through derivative transactions.
4. The table shows the Fund's net exposures to the relevant sectors through its long and short securities positions and long and short securities/index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".
5. The table shows the Fund's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

Disclaimers

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